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QUARTERLY REPORT
to the
COUNCIL ON FOREIGN ECONOMIC POLICY

SINO-SOVIET BLOC
ECONOMIC ACTIVITIES
IN UNDERDEVELOPED AREAS

1 January 1958-31 March 1958

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AND
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SINO-SOVIET BLOC ECONOMIC ACTIVITIES
IN UNDERDEVELOPED AREAS
1 JANUARY - 31 MARCH 1958

The Economic Role of the Sino-Soviet Bloc
in the Indonesian Crisis

1. The Sino-Soviet Bloc has responded quickly to recent appeals for assistance made by the Central Government in Indonesia, in particular to the urgent requests of the Sukarno regime for military equipment and shipping. Arrangements have been made to fulfill, at least in part, both of these requests. In addition, economic assistance has been offered.

2. In December 1957 the Indonesian government sent purchasing missions to Europe seeking military goods from both Bloc and Free World countries. An earlier decision of the Indonesian Cabinet to seek up to \$250 million worth of arms from any source prompted these missions. Purchases probably amounting to more than \$100 million have already been reported. Military equipment has been bought from European Satellites, but much of the material will undoubtedly come from the USSR. This equipment includes bomber, transport, and fighter aircraft, a variety of ground-force weapons and vehicles, 2 submarines, 4 destroyers, and 8 small naval vessels. Military equipment, probably produced in the Bloc, has also been purchased in Yugoslavia and Egypt.

3. A few aircraft are expected to be delivered during April 1958 and the remainder within 6 months. Delivery dates for the other items are not known. Nearly 4,000 Soviet jeeps and weapons carriers have been purchased and delivered to Indonesia during the past year.

4. Neither the Indonesian Air Force nor its Navy has men trained in sufficient numbers to operate all of the equipment that has been ordered, particularly the aircraft and naval vessels. Arrangements have been made to train some Indonesians in Egypt, Poland, and Czechoslovakia, and others will probably be trained by Bloc officers in Indonesia. But meanwhile much of the navy and air equipment may be operated by Bloc personnel.

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5. A contract for the delivery of merchant ships totaling 35,000 deadweight tons (DWT) was signed with the USSR in March. These ships represent a considerable part of the shipping required to satisfy Indonesia's most urgent current needs for troop transport and inter-island trade. Approximately 200,000 DWT of shipping were lost to Indonesia as the result of its moves against Dutch shipping lines. At least 9 Soviet ships have already been delivered, and 5 more are scheduled for early delivery. Soviet crews accompanied the ships, and some key Soviet personnel will remain in Indonesia to serve as ship officers and to train indigenous personnel for eventual manning of the vessels. A Polish offer to provide 30 merchant marine officers at once has been accepted by Indonesia. These officers are expected to assist in the operation of the Indonesian shipping industry.

6. The largest Bloc credit known to have been accepted to date is for \$100 million from the USSR agreed to in 1956 but not ratified by the Indonesian Parliament until February 1958. The Soviet ships sold to Indonesia were financed under this line of credit, but no economic development project contracts have yet been signed. In addition to this line of credit, the USSR has offered a glass factory, the foreign exchange costs of which would be financed by a \$2.5-million credit. Moreover, the Soviets reportedly have offered to participate with Poland in furnishing roadbuilding equipment under a \$15-million credit. Communist China has offered a credit of from \$20 million to \$40 million to finance a textile mill as well as imports of 20,000 tons of rice and 70 million yards of textiles.

7. Since acquiring independence in 1949, Indonesia has been faced with the tasks of rehabilitating its economy, weakened by the damage inflicted during World War II and the ensuing struggle for independence, and of establishing economic progress. Since 1949, government economic policies have been aimed at eradicating Dutch influence over economic activities rather than at economic development. Furthermore, domestic financial and technical resources have not been adequate to permit rapid rehabilitation and growth, nor have they been employed effectively. As a result, rehabilitation has lagged, and, despite substantial financial assistance from abroad, little economic progress has been made. Economic improvement, or even maintenance of present low

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standards of living, is heavily dependent on external assistance. The chronic need for such aid is a fundamental factor in the country's vulnerability to the Bloc offers of economic and military assistance.

8. Indonesia's basic economic weakness has been compounded by the campaign against the Dutch and by the dispute of the Central Government with the Padang rebels. This distress has been magnified by falling foreign exchange earnings and government revenues, and a large additional burden has been placed on the Djakarta government's slender financial resources. In addition, Western confidence in the Djakarta regime has weakened. The United States and most Western European nations have refused thus far to respond to recent Indonesian appeals for assistance. The attractiveness of offers of aid from the Bloc consequently has increased enormously. Bloc protestations that no political commitments are attached to its aid and that the Indonesian government will at all times retain complete control over aid programs may have helped to assuage Indonesian qualms about the acceptance of large amounts of Bloc assistance.

9. The Bloc has already struck a serious blow against the Western position and at the same time has managed to identify itself more closely with Indonesian nationalism. This has been accomplished by encouraging the neutralist posture of the Indonesian government, by supporting its attempt to eradicate Dutch economic interests, and by fostering military repression of the revolutionary movement.

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